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INTEGRATED DIAMOND MANAGEMENT PROGRAM

6TH QUARTERLY ACTIVITY REPORT: 1 JANUARY THROUGH 31 MARCH 2006

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1. EXECUTIVE SUMMARY

The Integrated Diamond Management Program (IDMP) aims to improve management of Sierra Leone's diamond sector at both national and local levels. It strives to increase benefits to government and communities through improved management of the resource. Bringing diamond mining and marketing into the formal sector increases government revenues through taxes and licenses while reducing security threats from diamond smuggling. Meanwhile, the innovative Diamond Area Community Development Fund releases funds from export taxes for community development within diamond producing chiefdoms, encouraging citizens to both produce and export legally. During this reporting period approximately 1.7 billion Leones (approximately US\$600,000) for 2005 DACDF were released to councils and chiefdoms within the program area. Although issues of awareness and inclusion remain, these measures complement the effectiveness of the international Kimberley Process.

Table 1 demonstrates the continuing steady rise in the value of diamond exports. Production in caratage, however, since 2004 has continued to decline. At the national level, fears over exporter taxation changes gave rise to concerns and a considerable delay was evidenced in the release of supporting mining funds.

TABLE 1: SIERRA LEONE DIAMOND EXPORT JANUARY TO MARCH 2003-2006

YEAR*	CARATS	VALUE	AV. PER CARAT
2003	108,033	\$16,526,536	\$152.98
2004	184,270	\$28,866,917	\$156.66
2005	147,469	\$28,363,664	\$192.34
2006	141,385	\$30,017,768	\$212.31

*Note: These are calendar years

Table 2 illustrates the current position during the last period as delays in the availability of mining funds created a late start for many involved in artisanal mining. Subsequent exports show a far less consistent flow than the first months of 2005.

TABLE 2: SIERRA LEONE ALLUVIAL DIAMOND EXPORT JAN TO MAR 06 VV 05*

MONTH	2006		2005	
	CARATS	VALUE	CARATS	VALUE
JANUARY	29,713	\$5,553,599	46,298	\$8,082,482
FEBRUARY	30,219	\$6,391,812	42,154	\$8,829,146
MARCH	58,151	\$12,810,263	41,328	\$8,345,201
TOTAL	118,083	\$24,755,674	129,780	\$25,256,829

*Note this table does not include Kimberlite production, unaffected by the taxation concerns

Increased value in exports is due partly to improved market conditions, but also to the quality of some exports. Last quarter we reported a downtrend in market prices in light of limited inventory increases for the Christmas season. The market has shown some signs of improvement, though predominantly in special stones. During the period, ten shipments with the average value per carat exceeding \$1,000 and three shipments with an average value per carat in excess of \$2,500 were made, totaling \$1.3

million in exports, as compared to \$900,000 for the same period last year. Table 3 highlights existing trends in value per carat.

TABLE 3: SIERRA LEONE DIAMOND AVERAGE VALUE COMPARISON (JAN TO MAR)

YEAR	ALLUVIAL	KIMBERLITE	TOTAL
2004	\$149.92	\$211.45	\$156.66
2005	\$194.61	\$175.64	\$192.34
2006	\$209.65	\$225.82	\$212.31

During February 2006, the kimberlite mining company Koidu Holdings also announced a shipment containing a number of special stones including one of 82 carats. Despite these seemingly improved conditions, the level of alluvial export caratage continues to decline as illustrated by Table 4, below.

TABLE 4: SIERRA LEONE DIAMOND CARATAGE COMPARISON (JAN TO MAR)

YEAR	ALLUVIAL	%	KIMBERLITE	%	TOTAL
2004	164,097	89.0%	20,173	11.0%	184,270
2005	129,780	88.0%	17,689	12.0%	147,469
2006	118,083	83.5%	23,302	16.5%	141,385

As reported in December 2005, the potential for goods from Liberia to be marketed in Sierra Leone continues. Should some Liberian production be included within Sierra Leone declared exports, the decline is even more marked. Reasons for this decline include more areas in Sierra Leone being declared worked out and considerable confusion over demarcation of mining sites during year end and new year as land allocations were made to the increasing number of mining companies entering Sierra Leone. As the season develops, the program will closely monitor export figures to establish new trends. However the lack of accurate production recording remains a “thorn in the side” of Sierra Leones continued Kimberley Process compliance and makes accurate correlation of export figures to production impossible.

NATIONAL ISSUES

The High Level Diamond Steering Committee met in March to dialogue on national issues. High in importance is the establishment of procedures for cutting and polishing following the submission of five individual applications. Establishing the Public Information Unit (PIU) and ensuring the DACDF is effectively monitored continue to tax the committee. In addition to the program working closely with GoSL to develop a community land reclamation policy, the Ministry of Mineral Resources has now been requested to produce a proposal for the establishment of the PIU.

LOCAL ISSUES

The number of mining licenses issued in the program area now exceed 1400, almost two-thirds of the national figure. However issues surrounding land allocation within the program area continue. New companies within Kono district have been allocated large tracts of valuable mining land to the exclusion of the artisanal miners. While some sections believe that the allocations have been made in a manner congenial to all, many have reservations. The program continues with its zonal meetings, and it is at these forums that concerns are raised.

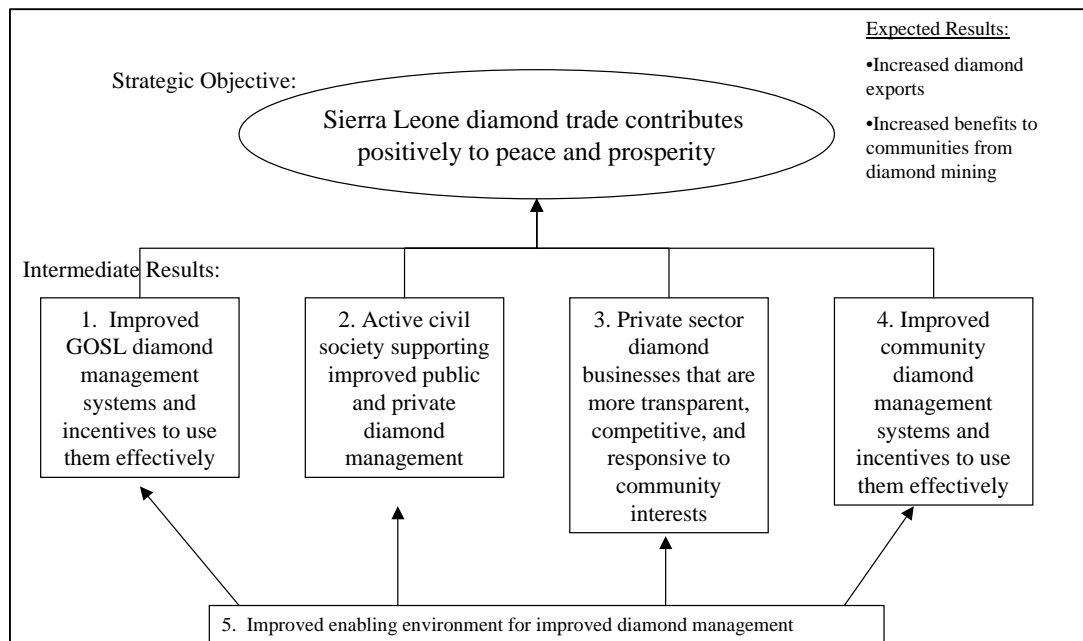
Discussions over potential reforms to the PDA continue with the Kono District Council playing an active role. Following the successful workshop on monitoring of diamond production led by Global Witness as part of their Scope of Work, a wider consultative body seems to be emerging. Councils are now stepping forward to drive changes even before the Ministry is devolved. With increased levels of information, zonal meetings, regular radio phone-in programs and the eventual PIU, the program continues to bring effective management of the diamond industry to the fore at the local level.

It is therefore encouraging that the people of Koidu have the opportunity to address a wider audience. Three British Members of Parliament, representatives of the British International Development Committee, visited Koidu in February, and representatives of the Extractive Industries Transparency Initiative (EITI) visited in March.

2. INTRODUCTION

This Activity Report describes activities in the sixth quarter of Cooperative Agreement #636-A-00-04-00217-00, between Management Systems International and the United States Agency for International Development (USAID). These activities are executed consistently with the IDMP workplan and the objectives of the Agreement. For clarification, when using the acronym IDMP, the report is referring specifically to this USAID funded program. When the Integrated Diamond Management acronym is used, IDM, it is referring to the conceptual and implementation model for diamond management.

In its effort to manage for results, activities are designed to achieve the outcomes summarized in the following results framework:



The main focus of the 2004-2005 year was to ensure the principles of the Integrated Diamond Management (IDM) scheme were established and operational. Therefore, the greatest number of activities appeared under IR 4. Meanwhile, it is vital to build trust and confidence through increased

interaction and integration of government, private sector and communities. This process is time consuming but profitable in increasing understanding and interdependence, while deflating potential tensions. In addition to providing greater benefits to local residents, IDM also complements efforts to strengthen the Kimberley Process through efforts to establish the Earth to Export scheme.

The following section will present activities, by Intermediate Result, including:

- An overview of the quarter,
- Summary of work completed, by activity,
- Issues needing immediate attention, if any.

Subsequent sections will discuss challenges, successes, the project's financial position; lessons learned, and highlight issues to be aware of in the coming period.

3. PROGRAM ACTIVITIES, BY INTERMEDIATE RESULT

1. IMPROVED GOSL DIAMOND MANAGEMENT SYSTEMS AND INCENTIVES TO USE THEM EFFECTIVELY

OVERVIEW

Significant progress has been made in enhancing GoSL capacity to institute policies that would lead to effective management of the Sierra Leone diamond industry. The HLSC and an ad hoc Technical Committee represent key policy forums in enhancing national policy development relative to the diamond sector. The two committees meet to analyze strategic policy issues and are able to advise GoSL on important diamond sector policy on the basis of best practice. Being the incumbent Secretariat to both committees, the IDMP program continues to play a crucial role in the overall process of transforming Sierra Leone's diamond industry in line with aspirations of the program objective of enhancing national peace and prosperity for Sierra Leone. During this quarter, we, in collaboration with other partners continued to monitor policy implications and played a major role in encouraging the GoSL to review policy measures (e.g. Cutting and Polishing, Information sharing, Land Reclamation and DACDF oversight) that are inimical to the overall aspirations of the Core Mineral Policy.

Following a temporal breakdown in policy dialogue during 2005, (see last report) both the HLSC and the technical committee are re-engaged and close contact with the MMR and other essential government institutions are maintained. While the resuscitation and maintenance of the above structures has its merits in the work of the IDMP, policy management continues to focus the program on other key issues such as:

- Research and analysis of best practice and options for the effective implementation of the DACDF,
- Explore environmental reclamation opportunities at community level,
- Assist GoSL in the preparation of cutting and polishing legislation,
- Aid GoSL in the establishment of the Public Information Unit,

- Continue to provide Secretariat and follow-up services for both the HLSC and Technical Committees, all of which are essential pathways to maintain focus and momentum towards the implementation of the GoSL Core Mineral policy.

As the new governance structures in Sierra Leone develop, realities continue to unfold. Policy management has had to adapt its approach in order to adequately interface and respond to such realities. The increment in MMR's trust and confidence in the IDMP process and the program continues. In addition to the Ministry request for us to lead and articulate ideas in local environmental reclamation, we have also recently been asked to produce key documentation relating to the establishment of the Public Information Unit. The above are in addition to work in progress on implementation of identified actions emanating from the DACDF report.

It is important to note that Sierra Leone continues to experience the effects of both economic shocks and the demise of geopolitics and, therefore, the success of any project depend on its ability to adapt and respond to these changes. Perhaps one success of IDMP can be judged on its ability to maintain its strategic relevance in fluid and fast changing operational environment. Below is a detailed description of specific activities and outcomes.

WORK SUMMARY, BY ACTIVITY

1.1 Capacity to make policy improved

During the current reporting period, both HLSC and Technical Committee meetings were convened through the program's coordination and Secretariat services. Key discussions in the HLSC meeting focused on the establishment of diamond cutting and polishing procedures and the ratification of the program DACDF report. Representatives of the HLSC raised the issue of land allocation to companies. The concerns emanated from the lack of clear policy and grounds as to which companies were receiving land and why. There are implications not only for access to satisfy the needs of the artisanal mining sector, but also the availability of arable land for productive food security. This issue remains problematic and will be highlighted in section three of this report. In addition to providing Secretariat services and the implementation of various support activities, review and analysis of export data is also central to policy work.

1.2 Implementation of the Core Mineral Policy

1.2.1 Institutions Strengthened – Viability of Eastern Polytechnic to provide Mining training

Work has continued to develop the Eastern Polytechnic concept. Plans have now been developed and cost calculated. The results highlight the necessity for prioritization and a multiple funding approach. At the time of writing, the Kono District Council is deliberating on applying a portion of their recent DACDF funds to kick start the project. Once started, a number of local and international mining companies will be lobbied for additional support.

1.2.2 Adverse mining impacts mitigated – Design Community Reclamation Policy

A workshop titled "To minimize and mitigate the adverse impact of mining operations on health, communities and the environment" was convened in Kenema in February at which representatives of Kono and Kenema district met to propose ideas in line with reclamation objectives. The final draft paper is now being completed for dissemination to Ministries, local councils and paramount chiefs. It is anticipated that this will be finalized during the next quarter with funds being released for trials during the upcoming farming season.

1.2.3 Welfare and Benefits Improved – Design DACDF devolution policy

Focus on communities to better plan and prioritize DACDF project activities has constituted a significant portion of policy work during this reporting quarter. Following the acceptance of the

program recommendations, follow up work in communities continues. Program zonal meetings and radio discussions continue to highlight the significance of this fund. These activities are timely as the 2005 DACDF funds were released during this quarter.

Meanwhile, at the policy level the creation of a project reporting and monitoring format remains an ongoing exercise. Until this body is put in place, with the necessary authority to support councils in effecting their developmental oversight, the effectiveness in implementing the DACDF will still be influenced by local chiefdom discretion.

1.3 Government Financial Controls reinforced

The program has undertaken a base study into the practicalities of implementing the Anti Money Laundering Act by the Sierra Leone banking sector. The implications of this report are currently under review.

ACTIVITIES UNDERTAKEN OPPORTUNISTICALLY, BUT NOT INCLUDED IN WORK PLAN

Support to the Cadastre Implementation – Koidu remains the focus for the trial implementation of a mining cadastre system. This program continues to support implementation of the system. However GoSL procurement delays continue to hamper the success of this program.

ISSUES REQUIRING ATTENTION

- DACDF – Awareness is being raised and yet there appears a reticence to increase controls within this vital area. As councils try to oversee regional development, it appears they lack both the political and technical support to effectively manage this function.
- Cutting and Polishing – Five companies have put forward proposals to commence cutting and polishing activities, yet laws are not in place. There are implications that the open supply of rough diamonds on the Sierra Leone market will be insufficient to satisfy the demand from all manufacturers. It is envisaged that rough will have to be imported into Sierra Leone. Polished diamonds require no export certification under the Kimberly Process Certification Scheme. As the country tries to manage its diamond production flows, the added onus of managing imports to cutting factories and the control of resultant polished diamonds have the potential to disrupt the recognized progress against smuggling that Sierra Leone has made thus far.
- Land Allocations – This issue is highly contentious and is discussed further in section Three.

2. ACTIVE CIVIL SOCIETY SUPPORTING IMPROVED PUBLIC AND PRIVATE DIAMOND MANAGEMENT

OVERVIEW

Much has changed since the inception of the Peace Diamond Alliance in 2002. At the time, Kono was one of the last areas to be declared disarmed, and the Ministry of Mineral Resources only reopened its office in April 2002. With only 87 licenses issued to a meager population by mid-2002, governance in the district was fully in the hands of the few returning Paramount Chiefs. Today, 1190 licenses are currently in force, with a fully staffed Ministry of Mines office implementing the trial cadastre process. The area is peaceful with both the Police and Army actively deployed, UNAMSIL having departed Koidu in late 2004. Now governance is in the hands of both councils and chiefs who seem to be getting to grips with the new demands of decentralization. Civil society is encouraged to be an active part of this process.

At the time of the inception of the PDA, local level mining problems included low or no payment for work, lack of understanding of the licensing process and the value of diamonds, and no development within diamond mining communities are being addressed. In these early days, the PDA was invaluable in bringing about changes. Remuneration to diggers has improved, the community is more aware of the value of diamonds, and prices paid have increased accordingly. The DACDF is now returning over half a million US dollars to Kono each year for development. These improvements often go unrecognized at the international, or sadly even national, level.

Recently awareness is growing within the community that the diamond resource, seemingly unbound in the past, is limited. Areas are becoming rapidly depleted and issues relating to land access and environment are now fundamental concerns. More and more, the community is examining a multifaceted livelihood approach rather than simply depending on an all too often elusive mineral. The attitude toward mining as an income source is still strong, but this is in an environment that has few other employment opportunities, especially for the youths.

Over the past year, more mining companies have become operational in Kono. As they arrive more lands are allocated away from the artisanal miner. The number of artisanally owned licenses is seen to be decreasing from the high of 1023 in 2003 to 813 at the end of 2005. (At this time mining companies held over three hundred and fifty licenses) Yet there is limited understanding as to how to maximize through negotiation the benefits such companies can bring to the district. Within such a changing environment the institutional relevance and focus of the PDA needs to be redefined.

WORK SUMMARY, BY ACTIVITY

2.1 Peace Diamond Alliance strengthened

As in previous reporting periods, mentoring/coaching assistance continued during this sixth quarter. This notwithstanding, the future self-sustainability of the PDA remains in doubt unless reforms are undertaken. The Alliance as it is structured is not working productively. The Executive Committee itself needs reform and streamlining to work more effectively and be proactive as the general membership of the Alliance feel it no longer represents the mission and vision of the PDA.

The production of a report by some members of the Executive Committee reporting a PDA workshop held in September 2005 sparked controversy in the early part of this reporting period. The report, more of a critique of the working relation between the PDA and the Secretariat rather than addressing the mandate of the workshop, led many members of the ad hoc committee and of the Alliance in general to disassociate themselves from it. Notwithstanding, the issues raised are being addressed in a wider forum chaired by the deputy chairman of the Kono District Council, also highlighting the issues mentioned above. Such discussions are seen as key to the future viability of the Peace Diamond Alliance, and remain in progress.

2.2 Provide technical assistance/training to targeted CBOs

Meanwhile various local member institutions continue to aid the promotion of the program and its objectives, both in training and assistance at zonal meetings.

Mentoring and coaching of the individual CBOs continues and now members of four local institutions have been trained as trainers in the delivery of the diamond identification and classification training. These members have increased the capacity to deliver this training, such that 74 candidates were trained within this period in Koidu and Tongo Fields.

In Tongo Fields two women's groups actively promote the program reclamation objectives by continuing to recycle worked out areas into valuable farming land.

ISSUES REQUIRING ATTENTION

The Peace Diamond Alliance and its executive committees continue to wrestle with new and important issues. However, the current format and low level of member participation is creating frustrations. These issues continue to be a major concern and focus for the remaining months of this program. As stated above, the perceived importance of the PDA has prompted the local council to become active in the way forward.

3. PRIVATE SECTOR DIAMOND BUSINESSES THAT ARE MORE TRANSPARENT, COMPETITIVE AND RESPONSIVE TO COMMUNITY INTERESTS

OVERVIEW

In the eyes of the community, peaceful coexistence between larger mining companies and the communities within which they operate is only guaranteed when companies recognize and act upon the needs of those communities. Currently five larger companies are now active in the program area, namely:

1. Koidu Holdings
2. African Diamonds PLC
3. Milestone T/A Sandor Development Corporation, operating as
4. Sierra Leone Diamond Company (SLDC)
5. Crown Mining, T/A Bassama

The newest company, Bassama, is establishing its plant and operational headquarters at the old NDMC site in Yengema. This company, part of the Petra mining group, is expected to commence operation in June focusing on Kimberlite Dykes in the Tankoro and Nimikoro chiefdoms of Kono District.

SLDC and Milestone have completed the allocation of alluvial mining lands situated along the Baffin and Sewa Rivers, predominantly in Sandor and Nimiya. However the large tracts of land allocated have raised concerns from the local miners and community who see valuable tracts being allocated to companies, thus limiting the available lands for the artisanal miners to work. This issue has been raised at the HLDSC and the Ministry is to prepare a response as to how these arrangements have been made. SLDC have reached agreement with the former African Gold and Diamonds to utilise their former camp and plant.

Two companies focusing on Kimberlite Pipes have differing levels of operation, African Diamonds PLC, have ceased operation at Pipe 3 in Gbense, while Koidu Holdings have completed the lining of Pipe 1 in Tankoro and are fully productive again. In Tongo Fields, Koidu holdings are accumulating their bulk sample to be treated in Koidu and have recently completed the necessary renovation of the Tongo to Nimikoro road necessary for the transport of the estimated 7,000 tonnes of deposits.

IDMP has always played a mentoring role thereby maintaining watchful eyes on such companies to see that they legitimise their positions with Government of Sierra Leone (GoSL) and also remain sensitive to community expectations. When companies fail to honour commitments, tensions grow. Historically, the program has played the role of mediator. SLDC and Milestone have completed the allocation of alluvial mining lands situated along the Baffin and Sewa Rivers, predominantly in Sandor and Nimiya. The issue of lost land for artisanal work has been raised at the HLDSC and the Ministry is to prepare a response as to how these arrangements were made. SLDC have reached agreement with the former African Gold and Diamonds (AGAD) to utilise their former camp and plant, but the responsibility for former workers and their rights is yet to be determined.

WORK SUMMARY, BY ACTIVITY

3.1 Corporate Social Responsibility of new entrant companies improved

Larger companies can add to the overall value of the diamond resource in Sierra Leone. There is limited local ability to undertake the investment necessary to extract in rivers and the kimberlite pipes and dykes. But when large areas of land are allocated to the mining companies, reducing access both to miners and farmers alike without clear policy and notification, the populace feels aggrieved. The increasing levels of public suspicion surrounding the activities of the larger mining companies remains of great concern to the program. Much of this emanates from the lack of clear information, not only from the companies themselves, but also from the government, and in some cases, local authorities.

Communities are willing to accept companies if local development goes hand in hand with company operations, however companies argue that they need to produce returns first. The issue of the resettlement of the Affected Property Owners within the Koidu Holdings operating area in Kono is a classic illustration of promises not being fulfilled leading to increased mistrust. Despite continuous promises, over three years less than thirty dwellings have been completed, and even those who only have economic plantations have yet to be compensated.

A recent case in which an SLDC constructed dam on the Baffin River led to flooding of the local area, including artisanal mining sites, remains unresolved. Evidence suggest that most of the companies are “junior” mining concerns with limited and externally managed funding, concerned with proving their property rich and then selling and believed to be engaged in political bargaining at the highest level. The perception of Corporate Social Responsibility is not high on their operating agenda.

The issues highlighted above are causing concern not just to the community, but to the program, the PDA and the donor community at large. A feeling of local impotency is growing as both communities and councils feel powerless to address these key concerns. The mining committee of the District Council feels it is being ignored and even blocked by the Ministry of Mineral Resources.

A vibrant private sector is vital to the revival of the Sierra Leonean economy, but not at these costs. These issues have also been brought to the attention of the donors and the Extractive Industries Transparency initiative. Efforts to reactivate the Chamber of Mines, where some form of self-regulation could be effected, have been slow. The body has convened for only one meeting. The program will continue to raise awareness of these issues and promote local meetings through the district council.

3.3 Fair Trade Standards Developed

Resulting from the PDA report at the end of 2005, the program has been attempting to develop a Fair Trade Buying Scheme. The principles are currently in place and external interested parties are reviewing the concept. No further action will be taken until such time as an extension to the existing program life is determined.

ISSUES REQUIRING ATTENTION

1. Uncertainty abounds as demands for land increase. The Sierra Leone Diamond Company (SLDC), following its recent exploration in Kono district, has now acquired rights to large tracts of land along the Baffin River. The land allocation is contentious and has implications for both artisanal miners and local farming communities.
2. African Gold and Diamonds (AGAD) has now closed. Currently former workers are claiming that benefits are unpaid. Sierra Leone Diamond Company (SLDC) has acquired the assets including mining land of AGAD, yet the issue of former worker compensation remains unresolved.

Evidence continues to suggest a strong economic migration from Kono to Tongo Fields. Job opportunities in and around Koidu are limited and the availability of viable mining lands is decreasing. People travel regularly to Tongo Fields in the hope of obtaining employment with the Koidu Holdings Tongo Fields operations. As limited job opportunities exist many are disappointed, but stay in the hope of being included in any future employment activity. This continues to create pressure on the host community, with the population of unemployed youths further swelled.

4. IMPROVED COMMUNITY DIAMOND MANAGEMENT SYSTEMS AND INCENTIVES TO USE THEM EFFECTIVELY

OVERVIEW

Following the co-operative mining activities of the previous season, the Ministry of Mineral Resources has finally legitimized cooperative status as entities that, following registration, can now legally hold a mining license. This is an improvement on previous legislation that prohibited groups (apart from registered companies) from holding mining rights.

Meanwhile follow up work continues and members of the cooperatives, along with councils and Ministry officials, took part in a monitoring workshop conducted by Global Witness from February 27 to March 1.

WORK SUMMARY, BY ACTIVITY

4.1 Artisanal Mining Procedures Improved

The “SMARTER” mining report from CEMMATS is now being translated into a training module. It is anticipated that this will be completed during April and the pilot training will commence in May. An evaluation will be conducted following the first training in order to train trainers.

4.2 Monitoring of IDM Process Improved

Work by Global Witness during the mining process has been structured and a Monitoring Workshop was conducted from February 27 to March 1 in Koidu. The objectives of the workshop were:

1. To understand diamond monitoring and see why it is important
2. To identify the problems encountered so far in diamond monitoring
3. To develop a coordinated approach to diamond monitoring between various stakeholders
4. To develop a toolkit for diamond monitoring based on the ideas floated in the workshop including practical guidelines for monitors
5. To identify and develop possible ways forward for diamond monitoring

The report is currently under review, however key recommendations from the workshop were:

To the Kono Workshop Participants:

- All stakeholders should meet on a monthly basis to share information and coordinate monitoring of artisanal diamond mining at the local level
- Prioritize finding the funds to pay for local monitoring
- Develop a mechanism for the broad dissemination of information relating to monitoring
- Refine and adopt the standard methodology and checklist for local monitors suggested in this report
- Develop and make specific recommendations on diamond monitoring to the Ministry of Mines and Law Reform Commission

To Local Councils:

- Use part of the DACDF funds allocated to local councils to fund local monitoring
- Review local laws to take into account local monitoring

To Chiefdoms:

- Continue to engage and coordinate with all stakeholders, particularly local councils and the MMR, on diamond monitoring
- Inform constituents about the distribution and use of the DACDF funds
- Consider using a portion of the DACDF funds to resource local monitoring
- Conduct joint mining site visits with the MMR monitors

To the Ministry of Mineral Resources, Kono:

- Continue to support local monitoring through training
- Coordinate monitoring activities with local monitors
- Make public information on the use of the monitoring fee
- Give selected local monitors official mandate to carry out monitoring tasks
- Conduct joint mining site visits with Chiefdom monitors
- Exchange information with Chiefdom Mining councils on a regular basis

To the Ministry of Mineral Resources Sierra Leone:

- Open a dialogue with the Kono Workshop Participants
- Expedite the release of funds for the creation of the Public Information Unit for monitoring. Carry out the planned information campaign to the public as soon as possible
- Expedite the expansion and properly resource the Precious Minerals Monitoring Unit department of the police
- Review the job description, roles, recruitment and benefits of the Mines Monitoring Officers, taking into account recommendations made in the report
- Make public information on the way in which the monitoring fee taken when mines are licensed is spent
- Make public basic information on diamond companies operating in Sierra Leone

To Civil Society Groups and Unions:

- Broadly disseminate information relating to monitoring and the DACDF to constituents, consider doing this through workshops, radio and community discussions
- Continue to participate in discussions on diamond monitoring at the local and national level

To the High Level Steering Committee:

- Consider the recommendations raised in this report and open a dialogue with local groups to further coordinate monitoring at a local level

To the Kimberley Process:

- Consider the findings and recommendations in this report as they relate to other alluvial diamond producing countries within the Kimberley Process

Subsequent to the workshop, a committee to review the recommendations and to propose a way forward was established and has met twice. It is anticipated that action plans will be drawn up in the next quarter.

5. IMPROVED ENABLING ENVIRONMENT FOR IMPROVED DIAMOND MANAGEMENT

OVERVIEW

While the program continues to ensure a high awareness of diamond issues is maintained, other specific areas of attention include improving the effectiveness of the DACDF (Diamond Area Community Development Fund), environmental reclamation, and support to the Technical Committee of the HLSC.

WORK SUMMARY, BY ACTIVITY

5.1 National awareness of diamond issues maintained

Documentary videos produced by Talking Drum Studios have been produced and are being used as a graphic support to the zonal meetings that have recommenced. These meetings serve to raise national and legal issues with attendees and provide them with the opportunity to feed back local information. In February and March, seven zonal meetings in Kono and four in Tongo Fields were undertaken. Attendance at all meetings was extremely high and over 1,000 people were addressed in total. This relatively inexpensive method of communication is proving highly effective and serves to ensure the program remains on track.

At the end of March, coinciding with the distribution of DACDF funds, the program held a radio phone in discussion program in Koidu. This event was so popular that the program is now aired on a weekly basis.

5.2 Effective use of DACDF improved

The program continues to promote improved effectiveness of the DACDF fund. At the HLSC and Technical Committee levels we are attempting to push forward the reforms recommended in our recent report. Progress, however, is slow.

Annex 1 of this report details the fund distribution for the year 2005. However even at the highest level there remain discrepancies among the figures allocated. These are being investigated and results are anticipated during the next quarter.

5.3 Improved policies and practices for reclamation

The program has liaised with the Ministries of Agriculture and Mineral Resources to ensure submission of a viable strategy to utilise existing reclamation funds. Initial discussions with the community suggest a positive response. Following a workshop held in Kenema with wide ranging participation, the strategy paper approaches conclusion for final submission to Government within the next period.

5.4 Quality interaction between donors and government augmented

The program continues to serve as Secretariat for the Technical Committee and to the High Level Steering Committee. The issue of Exporter Taxation is now fully resolved with the two main exporters (HM Diamonds and Kassim Basma) receiving tax clearances enabling them to obtain exporter licenses for the year 2006. However unconfirmed reports suggest the tax uncertainty had detrimental effects on exports during the last period, with Guinea reporting unusual export figures. Further exporters delayed the distribution of mining funds in the latter end of 2005 and the beginning of 2006. This is also evidenced by the slow exports in January and February with a peak in March. This clearly illustrates the fickle nature of the alluvial market in Sierra Leone.

5.5 Kimberley Process observance supported

The Team Leader took part in the first teleconference organized by the U.S. State Department Special Advisor for Conflict Diamonds. Worldwide participation discussed issues related to the differing diamond program activities. A follow-up teleconference is scheduled for April to establish training needs in the alluvial and especially artisanal sectors in order to improve Kimberley compliance.

The slow pace of implementing the Cadastre system continues to raise concerns. The effectiveness of production reporting from Sierra Leone is limited, and such reports forwarded to the KP are of doubtful accuracy. This issue continues to be raised. However Government response is that the Cadastre system will eventually improve reporting.

5.6 Sharing Lessons Learned

During the period the program facilitated two high profile visits in Koidu. In February, three British Members of Parliament representing the International Development Committee undertook a one day visit. They were shown both mechanized and hand mining methods and were briefed by program staff and members of the PDA. They then had the opportunity to discuss security matters with the local police and army representatives, followed by a working session with councilors, chiefs and community representatives.

In March the program hosted a mission from the Extractive Industries Transparency Initiative (EITI) as they analyzed potential for such within the diamond sector.

6. PROGRAM MANAGEMENT ACTIVITIES

OVERVIEW

During the period, the program was requested to submit a proposal for extension through March 2007. The proposal is in keeping with the existing work plan, with the exception of the gold resource. Indications are that much potential revenue is being lost to the GoSL through the illegal export of the gold resource, and that with attention focused on diamonds, this may leave an avenue for less transparent trading practices in Sierra Leone.

At the end of the period, Mr. Jorge L. Daly replaced the program Technical Director, Mr. Mark Renzi.

WORK SUMMARY, BY ACTIVITY

6.1 Weekly staff meetings and Monthly Managers' meeting

Weekly staff meetings continue, and in line with team building, managers meetings are held at monthly intervals. To increase communication and unity of message, managers are encouraged to work together on projects and to demonstrate increased flexibility.

ACTIVITIES UNDERTAKEN OPPORTUNISTICALLY, BUT NOT INCLUDED IN WORK PLAN

A temporary assistant to the Policy Coordinator has been appointed to ensure that the increasing number of policy interventions is dealt with prior to the intended closedown date of August 2006.

4. EVENTS, VISITORS, AND TRAVEL

Two visits detailed in section 3.5 took place during the period. Three British Members of Parliament visited Koidu on February 8, 2006. These Members represent the All-Party Committee on

International Development and were looking at the status of the recovery of Sierra Leone with particular emphasis on economic opportunity, security and governance.

The three MPs were:

- John Barrett – Liberal Democrat representing Edinburgh West has been a member of the International Development Committee since 2002, the Liberal Democrat spokesperson on International Development 2002-2005 and is secretary to the All Party microfinance and microcredit group.
- John Battle – Labour representing Leeds West was Minister of State for the Foreign and Commonwealth Office 1999 – 2001, a significant time in Sierra Leone’s history. He was chair of the Overseas Development group in 2005 and is vice chair of the Debt, Aid and Trade Group.
- John Bercow – Conservative representing Buckingham, who has served as the shadow secretary of state for International Development.

The MPs, accompanied by DfID representatives, visited an artisanal mining site and Koidu Holdings in the morning. In the afternoon, two group sessions were held. The first at Tankoro Police Station addressed community security issues with SLP, RSLAF and community representatives. The second meeting was held at the Kaamayamusu centre. At this session, local community members had the opportunity to discuss issues relating to job opportunities, social and economic recovery, and councils highlighted future development plans.

The second visit at the end of March was by representatives of the Extractive Industries Transparency Initiative (EITI).

5. HIGHLIGHTS OF UPCOMING PERIOD

1. IMPROVED GOSL DIAMOND MANAGEMENT SYSTEMS AND INCENTIVES TO USE THEM EFFECTIVELY

- The HLSC continues to develop laws and procedures for the implementation of cutting and polishing in Sierra Leone.
- It is anticipated that some funds will be provided by Kono District Council from DACDF allocations to commence work at the Woama College, part of the Eastern Polytechnic.
- The program will also present its Community Reclamation Policy document.
- The results of the initial Anti Money laundering report will be reviewed.

2. ACTIVE CIVIL SOCIETY SUPPORTING IMPROVED PUBLIC AND PRIVATE DIAMOND MANAGEMENT

- The program will continue to review the comments of the Executive Committee of the Peace Diamond Alliance with the District Council.

3. PRIVATE SECTOR DIAMOND BUSINESSES THAT ARE MORE TRANSPARENT, COMPETITIVE, AND RESPONSIVE TO COMMUNITY INTERESTS

- Further discussions will be held with local authorities and the community in light of the slow pace of reconstruction for the Affected Property Owners.
- The Ministry of Mineral Resources is being requested to clarify issues relating to land allocation and mining practices of the SLDC.

4. IMPROVED COMMUNITY DIAMOND MANAGEMENT SYSTEMS AND INCENTIVES TO USE THEM EFFECTIVELY

- First training from CEMMATS to be undertaken.
- Report from Global Witness monitoring workshop will be published.

5. IMPROVED ENABLING ENVIRONMENT FOR IMPROVED DIAMOND MANAGEMENT

- DACDF figures to be ratified.
- Fund Management to be improved.
- Public Information Unit Strategy to be developed

6. PROGRAM MANAGEMENT ACTIVITIES

- The proposed extension document to be approved.
- In the upcoming period, the new program Technical Director, Jorge L. Daly, will travel to Sierra Leone to learn about program activities and challenges on the ground and to meet with various project stakeholders and partners.

6. LESSONS LEARNED

- While the program has, for some time, enjoyed a cordial working relationship with the Government of Sierra Leone, through the Ministry of Mineral Resources, the political will to champion change remains fragile. That will continue to be influenced by often-unseen internal factors that can only be exacerbated in the run up to the 2007 elections commenced.
- The Peace Diamond Alliance continues to serve as an effective conflict management mechanism in the local diamond sector. However, indigenous initiative within the PDA remains weak, as it still requires considerable drive and support from the program.
- In its attempts to attract foreign investment in the diamond sector, the Government of Sierra Leone has allowed a number of less satisfactory agreements to become operational. These agreements must now be reviewed and standards reinforced.

Annex 1. 2005 DACDF Payments			
	Total DACDF Allocation Jan to June 2005	Total DACDF Allocation July to Dec 2005	Total
National Total	L. 1,667,834,987	L. 1,323,293,037	L. 2,991,128,024
Kono Chiefdoms			
Sandor	L. 203,282,468	L. 216,822,946	L. 420,105,414
Gbense	L. 107,225,917	L. 96,632,842	L. 203,858,759
Nimikoro	L. 85,780,734	L. 97,113,603	L. 182,894,337
Tankoro	L. 67,909,747	L. 54,325,926	L. 122,235,674
Nimiyama	L. 52,272,634	L. 58,652,770	L. 110,925,405
Kamara	L. 45,124,240	L. 48,556,802	L. 93,681,042
Kono District Council	L. 129,452,956	L. 133,591,299	L. 263,044,255
Koidu/NS Town Council	L. 10,945,979	L. 9,434,923	L. 20,380,902
Kenema Chiefdom			
Lower Bambara	L. 141,196,653	L. 101,440,447	L. 242,637,100
Kenema District Council	L. 35,299,163	L. 25,360,112	L. 60,659,275
Program Area Total	L. 878,490,491	L. 841,931,671	L. 1,720,422,162
Percentage of National Total	52.67%	63.62%	57.52%